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COMPETITIVE TELECOMMUNICATIONS ASSOCIATION

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Genevieve Morelli
Executive Vice President
& General Counsel

September 22, 1997

EX PARTE OR LATE FILED

William F. Caton
Acting Secretary
Federal Communications Commission
1919 M St., N.W.
Room 222
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

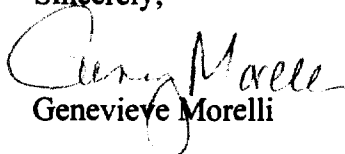
Re: CC Docket No. 96-262
Ex Parte Communication

Dear Mr. Caton:

On September 19, 1997, Genevieve Morelli, Joseph Gillan, and Robert Aamoth, representing the Competitive Telecommunications Association ("CompTel"), met with Michael Riordan, Chief Economist, and Pat DeGraba and John Nakahata to discuss the issues raised in CompTel's petition for reconsideration in the above-captioned proceeding. The attached written document was used during the meeting.

Please address any questions concerning this letter to the undersigned.

Sincerely,


Genevieve Morelli

cc: Michael Riordan
Pat DeGraba
John Nakahata

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Access Reform Reconsideration

I. The relative prices for tandem-switched and dedicated transport are significant because the choice of transport option is dependent upon traffic volume.

- A. Unjustified increases in tandem-switched transport rates discriminate between carriers based on size, thereby distorting interexchange competition.
- B. Inflated tandem-switched transport rates discourage competition in rural areas because this is the transport option used to reach smaller markets.

II. The prescribed increases in tandem-switched transport rates are contrary to the Commission's economic pricing and non-discrimination principles.

- A. Prescribed increases in tandem-switched transport rates will move these rates *farther* from economically efficient levels, in direct contravention of the Commission's pricing goal:

We recognize that the prescriptive measures that we implement today represent the first step toward our goal ... of moving such [interstate] access charges toward economically efficient levels.¹

- B. The basic framework of the access reform order is to rely, in the first instance, on *market-forces* to move access rates to cost:

In the NPRM, we identified two separate ways to continue this process [access reductions toward economically efficient levels] in the future -- a prescriptive approach in which we actively set rates at economic cost levels, and a market-based approach that relies on competition itself to drive access charges down to forward-looking costs.²

The approach applied singularly to tandem-switched transport rates, however, favors *regulatory prescription* -- a prescription which moves rates farther from their economic cost.

¹ First Report and Order, CC Docket 96-262, ¶ 44.

² Ibid.

III. Applying inconsistent methodologies to the pricing of transport options distorts network incentives and fosters discrimination between carriers, traffic-categories and geographic markets.

- A. The prescribed tandem switching rates will distort incentives for network configuration, encouraging a proliferation of under-utilized dedicated facilities.
- B. The Commission's transport decision will prevent the convergence between local and long distance transport and termination prices, a goal adopted by the Commission in its Interconnection Decision.

Ultimately, we believe that the rates that local carriers impose for the transport and termination of local traffic and for the transport and termination of long distance traffic should converge.³

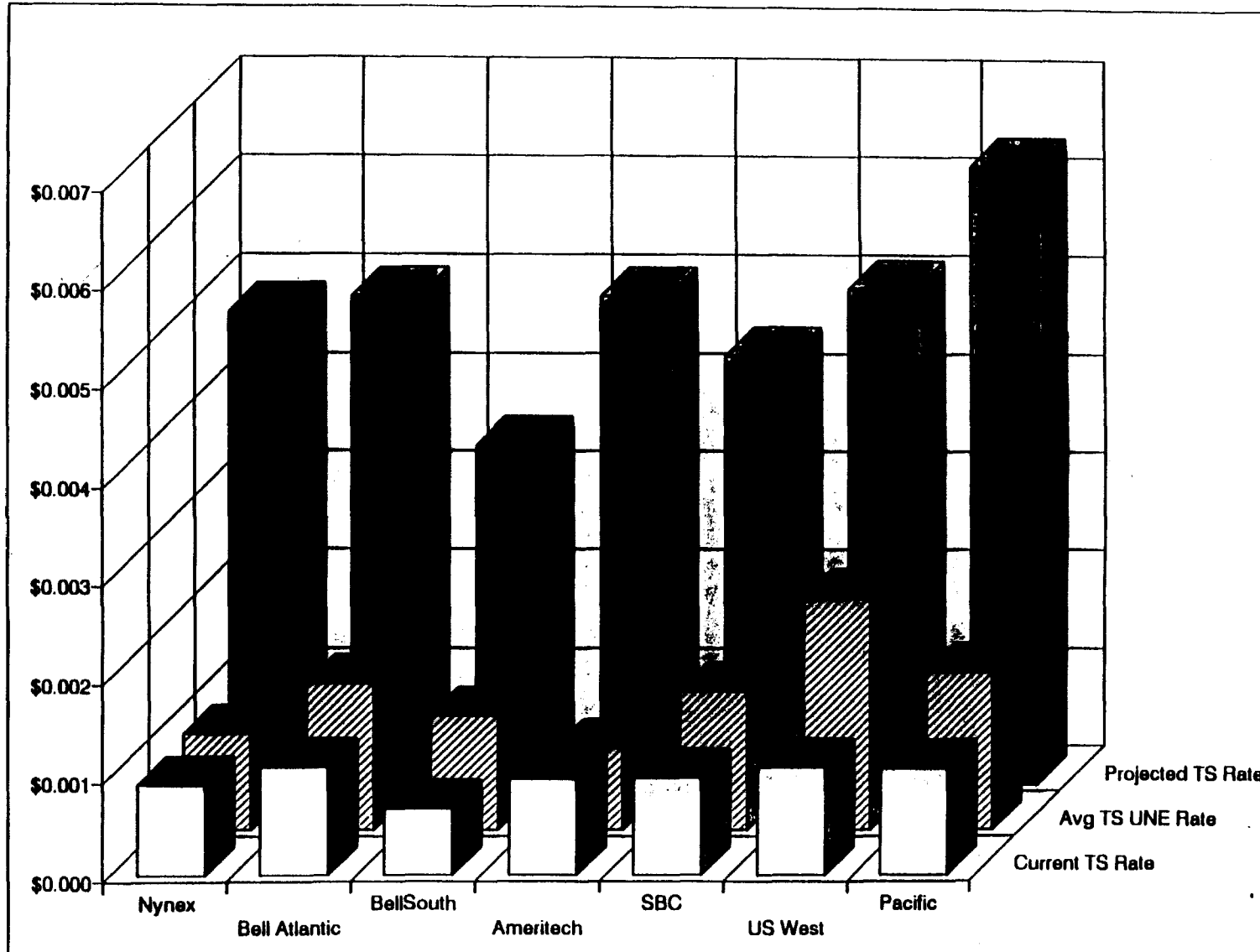
The goal of economic, cost-based, tandem-transport prices is within reach. Existing rate levels are reasonably close to cost-based levels. Retaining existing tandem-switched transport rates would only extend the Commission mandated phase-out of the TIC by an average of 6 months.

IV. The partitioned rate structure requires that interexchange carriers separately purchase dedicated circuits to reach remote, multiple tandems, significantly increasing the cost of tandem-switched transport.

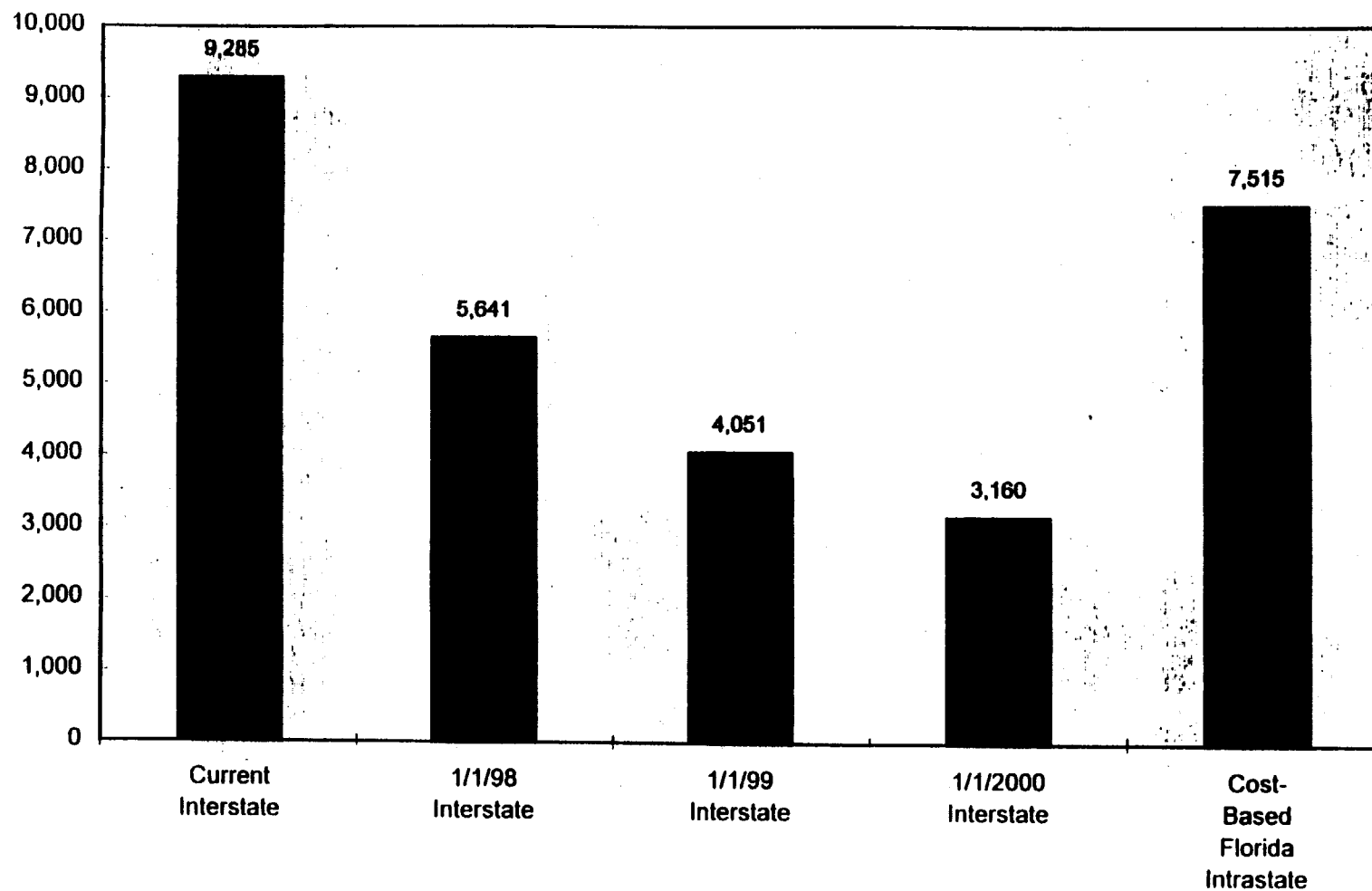
- A. The sole difference between the partitioned and unitary rate structure concerns the pricing of the segment between the SWC and the tandem.
- B. The *existence* of the SWC-Tandem segment is primarily a function of LEC network decisions -- the number and location of tandems -- over which the interexchange carrier has no control.
- C. Requiring tandem-transport users to purchase the SWC-tandem link as a distinct facility results in the double-application of fixed charges and longer mileages. Dedicated transport users pay only for airline mileages and fixed charges for the entire link, irrespective of how many interoffice links are actually needed to construct the circuit.

³ First Report and Order, Docket 96-98, ¶ 1033.

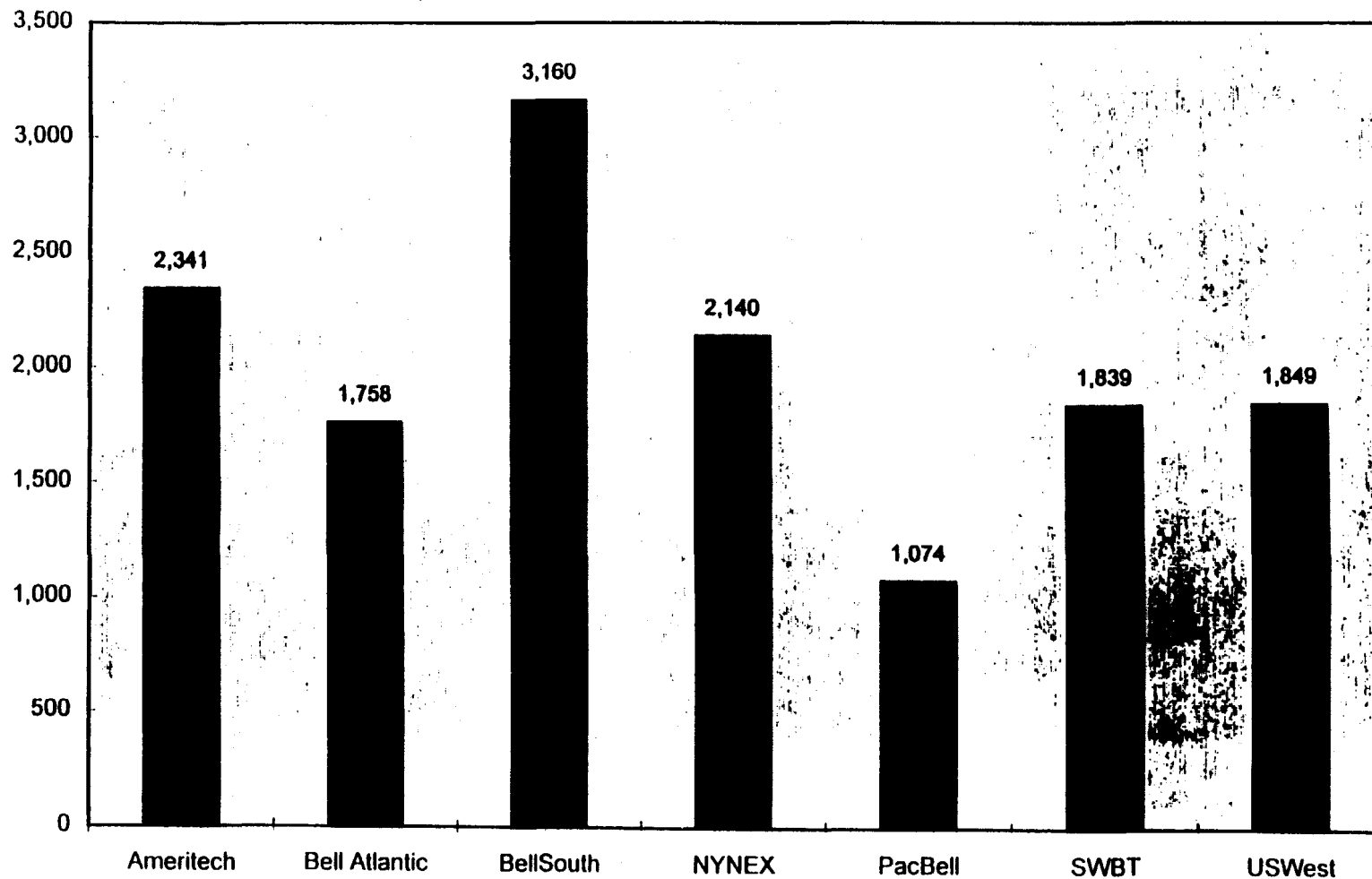
**Table I: Comparing Interstate Tandem Switching Charges
to their Cost-Based UNE Equivalent**



**Bellsouth Crossovers from Tandem Switched Transport to DS1 Direct Trunked Transport
Expressed in Minutes per Month per DS0**



RBOC Interstate Crossovers from Tandem Switched Transport to DS1 Direct Trunked Transport
1/1/2000 Rates Expressed in Minutes per Month per DS0



Competitive
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Association